



Mookgophong Local Municipality  
Financial statements  
for the year ended 30 June 2015  
Auditor General of South Africa

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## General Information

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<b>Legal form of entity</b>	South African category B municipality (Local Municipality) as defined by the Municipal Structures Act (Act no.117 of 1998)
<b>Nature of business and principal activities</b>	Mookgophong Local Municipality is a local municipality performing functions as set out in the Constitution (Act no.105 of 1996)
<b>Mayoral committee</b>	
Executive Mayor	Mrs N. Monyamane
Councillors	Mr M.R Kekana (Chief Whip) Ms K.S Lamola Mr S.A Magowa Mr L.W Kola Ms M.S Langa Mr H.P Louw Mr S.P Mafuna Mr J.H kleynhans Mr C.N Van Der Merwe
<b>Grading of local authority</b>	Grade 2
<b>Chief Finance Officer (CFO)</b>	Mr D. Eksteen
<b>Accounting Officer</b>	Mr O.P Sebola
<b>Business address</b>	Municipal Offices Nelson Mandela Drive Mookgophong 0560
<b>Postal address</b>	Private Bag X 340 Mookgophong 0560
<b>Bankers</b>	Standard Bank of South Africa
<b>Auditors</b>	Auditor General of South Africa

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Mookgophong Local Municipality**

Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or surplus in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the management are primarily responsible for the financial affairs of the municipality, they are supported by the Independent consultants where necessary.

The financial statements set out on pages 4 to 60, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

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**Mr O.P Sebola**  
**Accounting Officer**

# **Mookgophong Local Municipality**

Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2015.

### **1. Review of activities**

#### **Main business and operations**

The municipality is engaged in Mookgophong and Roedtan/Thusang and is a local municipality performing functions as set out in the constitution (act no.105 of 1996) and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

### **2. Going concern**

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R 175 405 505 and that the municipality's total assets exceed its liabilities by R 175 405 505.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### **4. Accounting Officer's interest in contracts**

The accounting officer does not have an interest in any of the contracts entered into during the financial year ended 30 June 2015.

### **5. Accounting policies**

The financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### **6. Non-current assets**

No major changes in the nature or the policy relating to the use of non-current assets of the municipality occurred during the financial year.

### **7. Bankers**

Accounts were held with the Standard bank of South Africa for the year ended 30 June 2015.

### **8. Auditors**

Auditor General of South Africa will continue in office for the next financial period.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Financial Position

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	1 088 549	1 224 445
Construction contracts and receivables	9	-	934 318
Receivables from non-exchange transactions	10	48 060 733	38 641 515
VAT receivable	11	941 364	-
Consumer debtors	12	6 446 236	18 612 964
Cash and cash equivalents	13	823 650	1 015 362
		<b>57 360 532</b>	<b>60 428 604</b>
<b>Non-Current Assets</b>			
Investment property	3	16 336 751	17 012 753
Property, plant and equipment	4	229 517 715	200 109 285
Intangible assets	5	50 489	100 958
Heritage assets	6	180 521	-
Non-Current Asset held for sale		-	493 601
		<b>246 085 476</b>	<b>217 716 597</b>
<b>Total Assets</b>		<b>303 446 008</b>	<b>278 145 201</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	14	2 997 531	549 144
Payables from exchange transactions	17	78 785 521	51 703 746
VAT payable	18	(941 364)	1 894 735
Consumer deposits	19	3 563 339	3 521 152
Unspent conditional grants and receipts	15	10 303 257	6 972 330
		<b>94 708 284</b>	<b>64 641 107</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	14	4 768 017	710 800
Employee benefit obligation	7	18 084 659	17 380 087
Provisions	16	10 479 543	8 252 193
		<b>33 332 219</b>	<b>26 343 080</b>
<b>Total Liabilities</b>		<b>128 040 503</b>	<b>90 984 187</b>
<b>Net Assets</b>		<b>175 405 505</b>	<b>187 161 014</b>
Accumulated surplus		175 405 505	187 161 014

\* See Note 38

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	44 794 887	46 675 763
Rental of facilities and equipment	32	319 404	260 538
Interest earned-outstanding receivables		6 087 698	5 849 367
Income from agency services		1 034 361	1 299 866
Licences and permits		2 587 329	2 917 792
Donations received		7 350 259	-
Connections and reconnection fees		45 356	28 038
Other revenue		668 383	745 174
Insurance claims and cemetery fees		64 988	545 458
Interest received - investment	28	129 339	97 217
<b>Total revenue from exchange transactions</b>		<b>63 082 004</b>	<b>58 419 213</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	23 931 500	21 748 627
<b>Transfer revenue</b>			
Government grants & subsidies	23	73 293 416	43 615 362
Fines, Penalties and Forfeits		928 250	283 828
<b>Total revenue from non-exchange transactions</b>		<b>98 153 166</b>	<b>65 647 817</b>
<b>Total revenue</b>	20	<b>161 235 170</b>	<b>124 067 030</b>
<b>Expenditure</b>			
Employee related costs	25	(52 554 897)	(49 100 301)
Remuneration of councillors	26	(3 322 572)	(3 175 203)
Depreciation and amortisation	30	(15 145 375)	(25 959 073)
Finance costs	31	(5 691 329)	(2 837 931)
Debt Impairment	27	(14 938 558)	(67 732)
Collection costs		(2 301 044)	(341 437)
Repairs and maintenance		(11 175 446)	(4 817 678)
Bulk purchases	34	(36 081 028)	(35 095 115)
Contracted services	33	(8 297 811)	(6 321 910)
General Expenses	24	(20 670 087)	(17 138 359)
<b>Total expenditure</b>		<b>(170 178 147)</b>	<b>(144 854 739)</b>
<b>Operating deficit</b>		<b>(8 942 977)</b>	<b>(20 787 709)</b>
(Loss) gain on disposal of assets and liabilities		(2 266 295)	1 647 773
Fair value adjustments	29	798 904	4 281 230
		<b>(1 467 391)</b>	<b>5 929 003</b>
<b>Deficit for the year</b>		<b>(10 410 368)</b>	<b>(14 858 706)</b>

\* See Note 38

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	194 540 307	194 540 307
Adjustments		
Correction of errors	1 929 699	1 929 699
Prior year adjustments	5 549 713	5 549 713
<b>Balance at 01 July 2013 as restated*</b>	<b>202 019 719</b>	<b>202 019 719</b>
Changes in net assets		
Surplus/(deficit) for the year	(14 858 705)	(14 858 705)
Total changes	(14 858 705)	(14 858 705)
<b>Restated* Balance at 01 July 2014</b>	<b>181 611 299</b>	<b>181 611 299</b>
Changes in net assets		
Correction of error	4 204 574	4 204 574
Net income (losses) recognised directly in net assets	4 204 574	4 204 574
Surplus/(deficit) for the year	(10 410 368)	(10 410 368)
Total recognised income and expenses for the year	(6 205 794)	(6 205 794)
Total changes	(6 205 794)	(6 205 794)
<b>Balance at 30 June 2015</b>	<b>175 405 505</b>	<b>175 405 505</b>
Note(s)		

\* See Note 38



# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		34 994 529	40 457 044
Grants		83 974 602	40 987 000
Interest income		6 217 037	5 946 584
Other receipts		27 240 766	13 988 674
		<u>152 426 934</u>	<u>101 379 302</u>
<b>Payments</b>			
Employee costs		(55 172 895)	(50 182 691)
Suppliers		(53 278 379)	(38 334 248)
Finance costs		(5 691 329)	(2 837 931)
		<u>(114 142 603)</u>	<u>(91 354 870)</u>
<b>Net cash flows from operating activities</b>	35	<b><u>38 284 331</u></b>	<b><u>10 024 432</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(36 130 939)	(9 383 473)
Proceeds from sale of property, plant and equipment	4	(2 329 090)	-
Purchase of investment property	3	1 474 906	(1 900 358)
Purchases of heritage assets	6	(180 521)	-
Proceeds from sale of non-current asset held for sale		493 601	-
Proceeds from sale of other asset 2		-	(432 901)
Gains/losses on sale		(2 266 297)	-
Correction of error		(6 043 307)	-
		<u>(44 981 647)</u>	<u>(11 716 732)</u>
<b>Net cash flows from investing activities</b>		<b><u>(44 981 647)</u></b>	<b><u>(11 716 732)</u></b>
<b>Cash flows from financing activities</b>			
Finance lease payments		6 505 604	1 220 204
Prior year error		-	7 479 415
		<u>6 505 604</u>	<u>8 699 619</u>
<b>Net cash flows from financing activities</b>		<b><u>6 505 604</u></b>	<b><u>8 699 619</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(191 712)</b>	<b>7 007 319</b>
Cash and cash equivalents at the beginning of the year		1 015 362	(5 991 957)
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>823 650</u></b>	<b><u>1 015 362</u></b>

\* See Note 38

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	52 470 000	(800 000)	<b>51 670 000</b>	44 794 887	<b>(6 875 113)</b>	
Rental of facilities and equipment	-	-	-	319 404	<b>319 404</b>	
Interest received (trading)	4 100 000	2 500 000	<b>6 600 000</b>	6 087 698	<b>(512 302)</b>	
Agency services	5 123 600	101 900	<b>5 225 500</b>	1 034 361	<b>(4 191 139)</b>	
Licences and permits	-	-	-	2 587 329	<b>2 587 329</b>	
Miscellaneous other revenue	-	-	-	7 350 259	<b>7 350 259</b>	
Fines	73 500	(20 000)	<b>53 500</b>	45 356	<b>(8 144)</b>	
Other revenue	3 169 300	(1 180 000)	<b>1 989 300</b>	668 383	<b>(1 320 917)</b>	
Cemetery fees	-	-	-	64 988	<b>64 988</b>	
Interest received - investment	40 000	5 000	<b>45 000</b>	129 339	<b>84 339</b>	
<b>Total revenue from exchange transactions</b>	<b>64 976 400</b>	<b>606 900</b>	<b>65 583 300</b>	<b>63 082 004</b>	<b>(2 501 296)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	21 066 000	1 550 000	<b>22 616 000</b>	23 931 500	<b>1 315 500</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	38 478 000	500 000	<b>38 978 000</b>	73 293 416	<b>34 315 416</b>	
Fines, Penalties and Forfeits	-	-	-	928 250	<b>928 250</b>	
<b>Total revenue from non-exchange transactions</b>	<b>59 544 000</b>	<b>2 050 000</b>	<b>61 594 000</b>	<b>98 153 166</b>	<b>36 559 166</b>	
<b>Total revenue</b>	<b>124 520 400</b>	<b>2 656 900</b>	<b>127 177 300</b>	<b>161 235 170</b>	<b>34 057 870</b>	
<b>Expenditure</b>						
Personnel	(46 409 779)	(2 623 000)	<b>(49 032 779)</b>	(52 554 897)	<b>(3 522 118)</b>	
Remuneration of councillors	(3 346 805)	-	<b>(3 346 805)</b>	(3 322 572)	<b>24 233</b>	
Depreciation and amortisation	(16 544 000)	-	<b>(16 544 000)</b>	(15 145 375)	<b>1 398 625</b>	
Finance costs	(1 150 240)	(4 354 500)	<b>(5 504 740)</b>	(5 691 329)	<b>(186 589)</b>	
Debt impairment	(1 300 000)	(2 000 000)	<b>(3 300 000)</b>	(14 938 558)	<b>(11 638 558)</b>	
Collection costs	-	-	-	(2 301 044)	<b>(2 301 044)</b>	
Repairs and maintenance	(7 347 000)	(638 600)	<b>(7 985 600)</b>	(11 175 446)	<b>(3 189 846)</b>	
Bulk purchases	(37 996 000)	40 000	<b>(37 956 000)</b>	(36 081 028)	<b>1 874 972</b>	
Contracted Services	(4 827 652)	(871 500)	<b>(5 699 152)</b>	(8 297 811)	<b>(2 598 659)</b>	
General Expenses	(17 008 000)	(69 000)	<b>(17 077 000)</b>	(20 670 087)	<b>(3 593 087)</b>	
<b>Total expenditure</b>	<b>(135 929 476)</b>	<b>(10 516 600)</b>	<b>(146 446 076)</b>	<b>(170 178 147)</b>	<b>(23 732 071)</b>	
<b>Operating deficit</b>	<b>(11 409 076)</b>	<b>(7 859 700)</b>	<b>(19 268 776)</b>	<b>(8 942 977)</b>	<b>10 325 799</b>	
Loss on disposal of assets and liabilities	-	-	-	(2 266 295)	<b>(2 266 295)</b>	
Fair value adjustments	-	-	-	798 904	<b>798 904</b>	
	-	-	-	<b>(1 467 391)</b>	<b>(1 467 391)</b>	
<b>Deficit before taxation</b>	<b>(11 409 076)</b>	<b>(7 859 700)</b>	<b>(19 268 776)</b>	<b>(10 410 368)</b>	<b>8 858 408</b>	

## Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

### Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(11 409 076)</b>	<b>(7 859 700)</b>	<b>(19 268 776)</b>	<b>(10 410 368)</b>	<b>8 858 408</b>	

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	1 340 000	-	1 340 000	1 088 550	(251 450)	
Construction contracts and receivables	500 000	-	500 000	-	(500 000)	
Receivables from non-exchange transactions	-	-	-	48 060 732	48 060 732	
VAT receivable	-	-	-	941 364	941 364	
Consumer debtors	38 849 000	-	38 849 000	6 446 236	(32 402 764)	
Cash and cash equivalents	1 800 000	-	1 800 000	823 650	(976 350)	
	<b>42 489 000</b>	<b>-</b>	<b>42 489 000</b>	<b>57 360 532</b>	<b>14 871 532</b>	

##### Non-Current Assets

Investment property	11 564 000	-	11 564 000	16 336 751	4 772 751	
Property, plant and equipment	152 300 000	-	152 300 000	229 517 715	77 217 715	
Intangible assets	-	-	-	50 489	50 489	
Heritage assets	-	-	-	180 521	180 521	
	<b>163 864 000</b>	<b>-</b>	<b>163 864 000</b>	<b>246 085 476</b>	<b>82 221 476</b>	

##### Total Assets

<b>206 353 000</b>	<b>-</b>	<b>206 353 000</b>	<b>303 446 008</b>	<b>97 093 008</b>	
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#### Liabilities

##### Current Liabilities

Finance lease obligation	-	-	-	2 997 531	2 997 531	
Payables from exchange transactions	21 525 000	-	21 525 000	78 785 521	57 260 521	
Consumer deposits	3 470 000	-	3 470 000	3 563 339	93 339	
Unspent conditional grants and receipts	-	-	-	10 303 257	10 303 257	
Provisions	4 278 000	-	4 278 000	-	(4 278 000)	
	<b>29 273 000</b>	<b>-</b>	<b>29 273 000</b>	<b>95 649 648</b>	<b>66 376 648</b>	

##### Non-Current Liabilities

Finance lease obligation	-	-	-	4 768 017	4 768 017	
Employee benefit obligation	-	-	-	18 084 659	18 084 659	
Provisions	24 579 000	-	24 579 000	10 479 543	(14 099 457)	
	<b>24 579 000</b>	<b>-</b>	<b>24 579 000</b>	<b>33 332 219</b>	<b>8 753 219</b>	

##### Total Liabilities

<b>53 852 000</b>	<b>-</b>	<b>53 852 000</b>	<b>128 981 867</b>	<b>75 129 867</b>	
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##### Net Assets

<b>152 501 000</b>	<b>-</b>	<b>152 501 000</b>	<b>174 464 141</b>	<b>21 963 141</b>	
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#### Net Assets

##### Net Assets Attributable to Owners of Controlling Entity

##### Reserves

Accumulated surplus	152 501 000	-	152 501 000	174 464 141	21 963 141	
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# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

#### 1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

## Accounting Policies

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### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus included in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit when the asset is derecognised.

The revaluation surplus included in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.



# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 years
Plant and machinery	2 to 20 years
Furniture and fixtures	7 to 10 years
Motor vehicles	2 to 20 years
Office equipment	3 to 7 years
Infrastructure	
• Roads and Paving	10 to 25 years
• Electricity Networks	20 to 30 years
• Water Networks	15 to 20 years
• Sewerage Networks	15 to 20 years
Community	
• Sport Facilities	30 years
• Cemeteries	30 years
• Libraries and Halls	30 years
• Parks and Gardens	30 years
Security measures	3 to 15 years
Bins and containers	2 to 20 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

## Accounting Policies

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### 1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

## Accounting Policies

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### 1.7 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

## Accounting Policies

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### 1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.8 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Cash and cash equivalents  
Consumer Debtors  
Receivables from exchange transactions  
Receivables from non-exchange transactions

##### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

##### Class

Unspent conditional grants  
Consumer deposits  
Payables from exchange transactions  
VAT payable

##### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

## Accounting Policies

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### 1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.



# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.10 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.11 Discontinued Operations

Discontinued operation is a component of an municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled municipality acquired exclusively with a view to resale.

A component of an municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

### 1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.13 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## Accounting Policies

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### 1.13 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.



## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

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## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

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## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.17 Revenue from non-exchange transactions (continued)

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

## Accounting Policies

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### 1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The budget for the economic entity includes all the entities approved budgets under its control.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

# **Mookgophong Local Municipality**

Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.24 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

### 3. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	16 336 751	-	16 336 751	17 012 753	-	17 012 753

#### Reconciliation of investment property - 2015

	Opening balance	Write -off	Fair value adjustments	Total
Investment property	17 012 753	(1 474 906)	798 904	16 336 751

#### Reconciliation of investment property - 2014

	Opening balance	Transfers received	Total
Investment property	15 501 540	1 511 213	17 012 753

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	53 941 506	(17 102 063)	36 839 443	56 640 378	(16 693 244)	39 947 134
Infrastructure	260 494 989	(120 090 721)	140 404 268	245 097 924	(111 497 983)	133 599 941
Community	7 137 846	(1 052 327)	6 085 519	6 144 203	(1 366 408)	4 777 795
Work in Progress	38 725 247	-	38 725 247	18 248 716	-	18 248 716
Other property, plant and equipment	15 769 915	(8 306 677)	7 463 238	22 321 019	(18 785 320)	3 535 699
<b>Total</b>	<b>376 069 503</b>	<b>(146 551 788)</b>	<b>229 517 715</b>	<b>348 452 240</b>	<b>(148 342 955)</b>	<b>200 109 285</b>



# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Correction of error	Gain/(losses) on Disposals	Transfers received	Transfers	Write off	WIP release	Depreciation	Impairment reversal	Total
Land	39 947 133	-	(1 467 509)	-	493 601	-	(335 783)	-	(2 028 067)	230 068	36 839 443
Infrastructure	133 599 940	9 167 359	70 700	-	-	(287 461)	162 675	6 517 168	(8 826 113)	-	140 404 268
Community	4 777 795	-	-	-	-	(1 511 214)	-	3 040 468	(221 530)	-	6 085 519
Work in Progress	18 248 716	0 476 531	-	-	-	-	-	-	-	-	38 725 247
Other property, plant and equipment	3 535 700	7 866 227	17 631	62 795	-	-	-	-	(4 019 115)	-	7 463 238
	<b>200 109 284</b>	<b>7 510 117</b>	<b>(1 379 178)</b>	<b>62 795</b>	<b>493 601</b>	<b>(1 798 675)</b>	<b>(173 108)</b>	<b>9 557 636</b>	<b>(15 094 825)</b>	<b>230 068</b>	<b>229 517 715</b>

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Write-off:Cost	Disposals	Classified as held-for-sale	Transfers	Impairment reversal	Correction of error	WIP release	Depreciation	Impairment loss	Write-off:Depreciation	Total
Land	52 895 654	464 669	-	-	(493 601)	(1 511 213)	-	-	-	(2 326 419)	(9 081 957)	-	39 947 133
Infrastructure	132 854 570	647 525	-	(13 440)	-	-	(917 664)	1 029 539	12 948 538	(10 891 145)	-	1 095	133 599 940
Community	5 478 964	-	(500)	-	-	-	-	-	-	(700 767)	-	98	4 777 795
Work in Progress	22 828 394	9 027 807	-	-	-	(13 607 485)	-	-	-	-	-	-	18 248 716
Other property, plant and equipment	3 362 981	2 439 928	60 700	(337 253)	-	-	-	-	-	(1 857 566)	(133 090)	-	3 535 700
	<b>217 420 563</b>	<b>2 579 929</b>	<b>60 200</b>	<b>(350 693)</b>	<b>(493 601)</b>	<b>(15 118 698)</b>	<b>(917 664)</b>	<b>1 029 539</b>	<b>12 948 538</b>	<b>(15 775 897)</b>	<b>(9 215 047)</b>	<b>1 193</b>	<b>200 109 284</b>

#### Pledged as security

No property, plant and equipment was pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
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### 5. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	924 522	(874 033)	50 489	924 522	(823 564)	100 958

#### Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	100 958	(50 469)	50 489

#### Reconciliation of intangible assets - 2014

	Opening balance	Total
Computer software	100 958	100 958

#### Other information

Intangible assets with indefinite lives consists of computer software licenses and the right to use computerised programmes.

### 6. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	180 521	-	180 521	-	-	-

#### Reconciliation of heritage assets 2015

	Opening balance	Correction of error	Total
Art Collections, antiquities and exhibits	-	180 521	180 521

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 7. Employee benefit obligations

#### Defined benefit plan

##### Post retirement healthcare plan

The municipality offers employees and continued members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. In-service members who joined the municipality on or before 1 December 2005 will receive a post-employment subsidy of 60% of the contribution payable, except for four of the older continuation members who are receiving a 70% subsidy. Widow(er)s and orphans of eligible in-service members are entitled to receive the same subsidy(60%) on and after the death of an in-service employee. Upon a member's death-in-service or death-in-retirement, the surviving dependents will continue to receive the same subsidy of between 60% and 70%.

Arch Actuarial Consulting CC was appointed by the municipality to determine the actuarial valuations towards the post employment healthcare benefits.

The municipality contributes towards the following defined benefit plans:

Key Health  
Bonitas  
LA Health  
SAMWUmed

In estimating the liability for post-employment healthcare benefits, a number of assumptions are required. GRAP 25 statement places the responsibility on management to set these assumptions as guided by the principles set out in the statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post employment healthcare arrangement-this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service cost are recognised over time.

#### The amounts recognised in the statement of financial position are as follows:

##### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(17 380 087)	(13 365 118)
Actuarial gains/(losses)	440 027	(3 222 581)
Contributions/Employee Benefit payments	647 016	502 944
Current service cost	(275 125)	(197 396)
Interest cost	(1 516 490)	(1 097 936)
	<b>(18 084 659)</b>	<b>(17 380 087)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	275 125	197 396
Interest cost	1 516 490	1 097 936
Actuarial (gains) losses	(440 027)	3 222 581
Contributions/Employer benefit payments	(647 016)	(502 944)
	<b>704 572</b>	<b>4 014 969</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
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### 7. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,85 %	8,89 %
Healthcare cost inflation	7,94 %	8,10 %
Net effective discount rate	0,84 %	0,73 %

The demographic key assumptions used at the reporting date is as follows:

- Average retirement rate: 63 (2014:63)
- Continuation of membership after retirement: 98% (2014:98%)
- Proportion assumed married at retirement : 90% (2014: 90%)
- Mortality during employment: 85-90 (2014:SA 85-90)
- Mortality post-retirement: PA (90) - (2014:(90)-1)

#### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

				One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost				2 085 500	1 542 400
	2015 R	2014 R	2013 R	2012 R	2011 R
Present value defined benefit obligation	18 084 659	17 380 087	13 365 118	9 449 637	8 238 080

#### Defined contribution plan

The municipality contributes to the following defined contribution pension plans:

SAMWU Provident Fund  
National Fund for Municipal Workers  
Municipal Gratuity Fund  
Municipal Employee Fund  
Joint Municipal Pension Fund  
Municipal Councillors Pension Fund  
Government Employee Pension Fund  
SALA Pension Fund  
National Fund for Municipal Workers-2% Fund  
Imatu Pension Fund

### 8. Inventories

Consumable stores	1 061 466	1 202 298
Water	27 083	22 147
	<b>1 088 549</b>	<b>1 224 445</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>9. Construction contracts and receivables</b>		
<b>Contracts in progress at statement of financial position date</b>		
Construction contracts and receivables	-	934 318
<b>10. Receivables from non-exchange transactions</b>		
Rates debtors	46 190 449	38 026 467
Other debtors	1 494 499	251 273
Other deposits	148 616	148 324
Other receivables from non-exchange revenue	26 402	121 060
Traffic fines	200 767	94 391
	<b>48 060 733</b>	<b>38 641 515</b>
<b>11. VAT receivable</b>		
VAT	941 364	-
<b>12. Consumer debtors</b>		
<b>Gross balances</b>		
Electricity	14 748 792	15 911 192
Water	7 075 194	5 753 521
Sewerage	6 767 725	5 049 776
Refuse	5 665 802	3 598 798
Other (specify)	2 140 740	2 306 266
	<b>36 398 253</b>	<b>32 619 553</b>
<b>Less: Allowance for impairment</b>		
Electricity	(11 646 606)	(7 012 950)
Water	(5 819 505)	(2 598 952)
Sewerage	(6 086 169)	(1 887 554)
Refuse	(5 135 184)	(1 627 222)
Other (specify)	(1 264 554)	(879 911)
	<b>(29 952 018)</b>	<b>(14 006 589)</b>
<b>Net balance</b>		
Electricity	3 102 186	8 898 242
Water	1 255 689	3 154 569
Sewerage	681 556	3 162 222
Refuse	530 618	1 971 576
Other (specify)	876 187	1 426 355
	<b>6 446 236</b>	<b>18 612 964</b>
<b>Electricity</b>		
Current (0 -30 days)	253 161	1 894 604
31 - 60 days	664 428	1 071 064
61 - 120 days	317 242	1 123 453
120 - 365 including> 365 days	11 174 520	11 324 351
Payments received in advance	2 339 441	497 721
Less Impairment	(11 646 606)	(7 012 951)
	<b>3 102 186</b>	<b>8 898 242</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>12. Consumer debtors (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	-	374 832
31 - 60 days	-	335 399
61 - 120 days	251 209	466 910
120 - 365 including > 365 daysdays	5 949 420	4 263 319
Payments received in advance	874 565	313 061
Less Impairment	(5 819 505)	(2 598 952)
	<b>1 255 689</b>	<b>3 154 569</b>
<b>Sewerage</b>		
Current (0 -30 days)	190 096	207 138
31 - 60 days	283 752	237 685
61 - 120 days	516 249	402 973
120 - 365 including > 365 days	5 494 659	3 146 484
Payment received in advance	282 969	1 055 497
Less impairment	(6 086 169)	(1 887 555)
	<b>681 556</b>	<b>3 162 222</b>
<b>Refuse</b>		
Current (0 -30 days)	289 241	207 857
31 - 60 days	272 735	178 373
61 - 120 days	463 973	347 287
120 - 365 including >365 days	463 973	2 736 941
Payment received in advance	4 175 880	128 340
Less impairment	(5 135 184)	(1 627 222)
	<b>530 618</b>	<b>1 971 576</b>
<b>Other (specify)</b>		
Current (0 -30 days)	-	119 350
31 - 60 days	-	33 659
61 - 120 days	-	43 234
120 -365 including>365 days	1 347 372	1 849 341
Payments received in advance	793 367	260 682
Less impairment	(1 264 552)	(879 911)
	<b>876 187</b>	<b>1 426 355</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>12. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Household Consumers</b>		
Current (0 -30 days)	5 599 655	6 222 189
31 - 60 days	1 701 484	1 997 330
61 - 90 days	1 309 113	1 481 629
91 - 120 days	34 129 845	27 582 923
	<u>42 740 097</u>	<u>37 284 071</u>
Less: Allowance for impairment	(17 805 093)	(7 313 341)
	<b>24 935 004</b>	<b>29 970 730</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	6 364 261	3 524 810
31 - 60 days	859 983	1 336 749
61 - 90 days	698 460	999 140
91 - 120 days	1 600 677	1 824 010
121 - 365 days	19 634 607	18 534 011
	<u>29 157 988</u>	<u>26 218 720</u>
Less: Allowance for impairment	(12 146 924)	(6 693 248)
	<b>17 011 064</b>	<b>19 525 472</b>
<b>National and provincial government</b>		
Current (0 -30 days)	308 395	668 715
31 - 60 days	301 479	317 639
61 - 90 days	282 127	486 357
91 - 120 days	6 984 225	250 182
121 - 365 days	-	5 726 900
	<u>7 876 226</u>	<u>7 449 793</u>
<b>Total</b>		
Current (0 -30 days)	12 272 311	10 415 714
31 - 60 days	2 862 947	3 651 718
61 - 90 days	2 289 700	2 967 126
91 - 120 days	62 349 384	1 512 875
121 - 365 days	-	14 072 120
	<u>79 774 342</u>	<u>32 619 553</u>
Less: Allowance for impairment	(73 328 106)	(14 006 589)
	<b>6 446 236</b>	<b>18 612 964</b>
<b>Less: Allowance for impairment</b>		
> 365 days	(29 952 017)	(14 006 589)
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(14 006 589)	(13 938 857)
Contributions to allowance	(15 945 428)	(67 732)
	<u>(29 952 017)</u>	<u>(14 006 589)</u>
<b>Consumer debtors pledged as security</b>		
None of the Consumer debtors were pledged as security for overdraft facilities.		

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 310	6 310
Bank balances	755 380	119 618
Call deposits	61 960	889 434
	<b>823 650</b>	<b>1 015 362</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA BANK - Current Account - 108-057-0097	-	-	122 082	-	-	(6 331 879)
STANDARD BANK -Call Deposit- 348-714-238-003	41 779	849 453	137 597	41 779	849 453	137 597
ABSA BANK -Call Account - 407-807-8429	-	-	196 015	-	-	196 015
ABSA BANK - Call Account - 928-651-1602	20 181	39 981	-	20 181	39 982	-
STANDARD BANK - Current Account - 031-702-32500	804 411	119 618	-	755 380	119 618	-
<b>Total</b>	<b>866 371</b>	<b>1 009 052</b>	<b>455 694</b>	<b>817 340</b>	<b>1 009 053</b>	<b>(5 998 267)</b>

### 14. Finance lease obligation

#### Minimum lease payments due

- within one year	3 730 249	712 938
- in second to fifth year inclusive	5 254 285	780 561

less: future finance charges

8 984 534	1 493 499
(1 218 986)	(233 555)

#### Present value of minimum lease payments

<b>7 765 548</b>	<b>1 259 944</b>
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#### Present value of minimum lease payments due

- within one year	2 997 531	710 800
- in second to fifth year inclusive	4 768 017	549 144
	<b>7 765 548</b>	<b>1 259 944</b>

Non-current liabilities

Non-current liabilities	4 768 017	710 800
Current liabilities	2 997 531	549 144
	<b>7 765 548</b>	<b>1 259 944</b>

It is the municipality's policy to lease certain property, plant and equipment under finance leases.

The municipality entered into a finance lease agreement with Callsave- (Internet). The lease agreement was entered into on 1 September 2013. The monthly lease payment amounts to R 38 366.54. The lease term is 3 years. The effective interest rate was 17.65 %.

The municipality entered into a lease agreement with Panasonic (Photocopying Machines). The lease agreement was entered into on 1 September 2013. The monthly lease payments amounts to R 21 044.98. The lease term is for 3 years at an effective interest rate of 13.3%.

The municipality entered into a lease agreement with Boka-Neo Investments( Vehicles). The lease agreement was entered into 11 February 2015. The lease term is for 3 years at an effective interest rate of 11.75%.



# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
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### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	7 203 583	3 872 657
Housing Grant	2 901 261	2 901 261
Grant from Waterberg District Municipality	61 112	61 112
Lotto Grant	137 300	137 300
	<b>10 303 256</b>	<b>6 972 330</b>

#### Movement during the year

Balance at the beginning of the year	6 972 330	9 600 692
Additions during the year	46 634 000	15 173 000
Income recognition during the year	(43 303 073)	(17 801 362)
	<b>10 303 257</b>	<b>6 972 330</b>

See note 23 for reconciliation of grants from National/Provincial Government.

These amounts are not invested in a ring-fenced investment until utilised.

### 16. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Interest and Current service cost	Actuarial loss/(gain)	Expected benefits vesting	Paid during the year	Total
Environmental rehabilitation	1 799 420	366 350	-	-	-	-	2 165 770
Provision for long services	2 043 652	-	396 683	543 138	(176 767)	-	2 806 706
Provision for leave	4 409 121	1 543 797	-	-	-	(445 851)	5 507 067
	<b>8 252 193</b>	<b>1 910 147</b>	<b>396 683</b>	<b>543 138</b>	<b>(176 767)</b>	<b>(445 851)</b>	<b>10 479 543</b>

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Expenditure during the year	Actuarial loss/(Gain)	Expected benefit savings	Expected benefit savings	Total
Environmental rehabilitation	1 697 566	101 854	-	-	-	-	1 799 420
Provision for long service awards	1 922 156	-	-	435 251	(51 950)	(261 805)	2 043 652
Provision for leave	3 513 876	1 617 567	(722 322)	-	-	-	4 409 121
	<b>7 133 598</b>	<b>1 719 421</b>	<b>(722 322)</b>	<b>435 251</b>	<b>(51 950)</b>	<b>(261 805)</b>	<b>8 252 193</b>

#### Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. The calculation is based on the present value of the future obligation, discounted at 6% over an average period of 87 years.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
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### 17. Payables from exchange transactions

Trade payables	60 313 102	39 847 413
Debtors with credit balances	10 879 970	5 840 141
Retentions	3 484 756	2 183 852
Sundry Payables	3 140 416	3 100 747
Accrued 13th cheque	967 277	731 593
	<b>78 785 521</b>	<b>51 703 746</b>

### 18. VAT payable

Tax refunds payables	-	1 894 735
VAT Receivable	(4 771 095)	-
VAT Payable	2 615 983	-
Difference due to accrual vs cash basis	1 213 748	-
	<b>(941 364)</b>	<b>1 894 735</b>

The municipality is registered on the receipt basis for VAT purposes. Payment to SARS is made only once payment is received from debtors and claimable when payments were effected to suppliers.

VAT returns have been submitted by the due date throughout the financial year.

### 19. Consumer deposits

Electricity and Water	3 563 339	3 521 152
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Consumer deposits are raised when a service account is opened and are refunded to the consumer after the account is closed.

No interest is paid for deposits held on behalf of consumers.

There are no guarantees held in lieu of electricity and water deposits.

### 20. Revenue

Service charges	44 794 887	46 675 763
Rental of facilities and equipment	319 404	260 538
Interest received (trading)	6 087 698	5 849 367
Agency services	1 034 361	1 299 866
Licences and permits	2 587 329	2 917 792
Donations received	7 350 259	-
Fines	45 356	28 038
Other income	668 383	745 174
Cemetery fees	64 988	545 458
Interest received - investment	129 339	97 217
Property rates	23 931 500	21 748 627
Government grants & subsidies	73 293 416	43 615 362
Fines, Penalties and Forfeits	928 250	283 828
	<b>161 235 170</b>	<b>124 067 030</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
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### 20. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	44 794 887	46 675 763
Rental of facilities and equipment	319 404	260 538
Interest received (trading)	6 087 698	5 849 367
Agency services	1 034 361	1 299 866
Licences and permits	2 587 329	2 917 792
Miscellaneous other revenue	7 350 259	-
Fees earned	45 356	28 038
Other income	668 383	745 174
Cemetery fees	64 988	545 458
Interest received - investment	129 339	97 217
	<b>63 082 004</b>	<b>58 419 213</b>

The amount included in revenue arising from non-exchange transactions is as follows:

#### Taxation revenue

Property rates	23 931 500	21 748 627
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#### Transfer revenue

Government grants & subsidies	73 293 416	43 615 362
Fines, Penalties and Forfeits	928 250	283 828

**98 153 166 65 647 817**

### 21. Property rates

#### Rates received

Rates	25 777 087	11 096 513
Less: Income forgone	(1 845 586)	10 652 114
	<b>23 931 501</b>	<b>21 748 627</b>

#### Valuations

Residential	(1 993 917 641)	(1 913 249 410)
Commercial	(283 948 448)	(388 270 477)
Agriculture	(4 267 633 160)	(3 978 206 706)
Municipal and other	(210 606 200)	(74 153 300)
State	(73 175 100)	(80 880 200)
	<b>(6 829 280 549)</b>	<b>(6 434 760 093)</b>

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2013. Interim valuations are processed on a monthly basis to take into account changes in individual property values due to alterations and subdivisions. The valuation roll was certified on 28 February 2013 by the Municipal Manager.

### 22. Service charges

Sale of electricity	30 902 005	33 112 605
Sale of water	4 240 385	5 167 001
Sewerage and sanitation charges	4 681 588	4 086 403
Refuse removal	4 970 910	4 309 755
	<b>44 794 888</b>	<b>46 675 764</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	33 863 000	29 014 000
Expanded Public Works Programme	1 134 000	1 000 000
Financial Management Grant	1 800 000	1 650 000
Municipal Systems Improvement Grant	934 000	890 000
	<b>37 731 000</b>	<b>32 554 000</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	35 562 417	11 061 362
	<b>35 562 417</b>	<b>11 061 362</b>
	<b>73 293 417</b>	<b>43 615 362</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and for the running of operations within the municipality.		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	3 872 657	6 501 019
Current-year receipts	42 766 000	11 633 000
Conditions met - transferred to revenue	(35 562 417)	(11 061 362)
Refunded	(3 872 657)	(3 200 000)
	<b>7 203 583</b>	<b>3 872 657</b>
Conditions still to be met - remain liabilities (see note 15).		
The intention of the grant is to provide funding for infrastructure capital projects. The unspent amount is committed to capital projects still under construction.		
<b>Municipal Systems Improvement Grant</b>		
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	<b>-</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 15).		
The grant is meant to assist the municipality in the improvement of system related transactions.		
<b>Financial Management Grant</b>		
Current-year receipts	1 800 000	1 650 000
Conditions met - transferred to revenue	(1 800 000)	(1 650 000)
	<b>-</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 15).		
The grant is mainly used for promoting and supporting reforms in financial management by building capacity in the municipality to implement Municipal Finance Management Act and progressive financial reporting.		
<b>Housing Grant</b>		
Balance unspent at beginning of year	2 901 261	2 901 261

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>23. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 15).		
<b>Waterberg District Council Grant-in-aid (Welgevonden Pipeline)</b>		
Balance unspent at beginning of year	61 112	61 112
Conditions still to be met - remain liabilities (see note 15).		
<b>Lotto Grant</b>		
Balance unspent at beginning of year	137 300	137 300
Conditions still to be met - remain liabilities (see note 15).		
<b>Expanded Public Works Programme Grant</b>		
Current-year receipts	1 134 000	1 000 000
Conditions met - transferred to revenue	(1 134 000)	(1 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
<b>24. General expenses</b>		
Advertising	204 634	193 968
Auditors remuneration	2 624 764	1 975 124
Bank charges	105 208	193 463
Entertainment	-	8 651
Finance Management	1 800 000	1 108 793
Municipal Systems Improvement	934 000	517 544
Insurance	355 368	365 746
Conferences and seminars	268 479	245 114
Postage and courier	135 178	187 660
Printing and stationery	843 412	594 625
Subscriptions and membership fees	540 032	341 330
Telephone and fax	554 226	80 000
Training	273 183	330 533
Travel - local	1 177 493	1 036 033
Mayoral Community Work Programmes	1 280 960	394 071
IDP Review	446 365	190 034
Vehicle Cost	4 744 289	3 819 099
Expanded Public Works Programme	1 134 000	1 329 745
Chemicals	462 434	225 756
Other expenses	2 786 061	4 001 070
	<b>20 670 086</b>	<b>17 138 359</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>25. Employee related costs</b>		
Basic	27 583 546	24 703 285
Bonus	1 835 369	1 829 307
Medical aid - company contributions	2 561 068	3 609 562
UIF	302 580	279 996
SDL	392 116	359 609
Other payroll levies	17 934	15 251
Leave pay provision charge	1 779 480	-
Allowance-Night Shift	124 836	109 382
Allowance- Protective Clothing	401 395	45 214
Allowance-Standby	1 486 818	841 819
Defined contribution plans	6 706 071	9 389 773
Travel, motor car, accommodation, subsistence and other allowances	3 164 519	2 791 911
Overtime payments	2 569 232	3 771 880
Long-service awards	837 208	127 196
Acting allowances	1 805 640	424 604
Housing benefits and allowances	56 121	40 168
Other allowances	30 600	24 000
Group Insurance	247 941	184 556
Allowance-Tools	8 909	8 472
Allowance-Telephone	643 516	544 315
	<b>52 554 899</b>	<b>49 100 300</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	687 309	665 213
Contributions to UIF, Medical and Pension Funds	9 293	10 233
Other	79 338	224 554
	<b>775 940</b>	<b>900 000</b>
<b>Remuneration of Chief Financial Officer</b>		
Annual Remuneration	708 227	663 422
Allowances	239 122	223 167
Contributions to UIF, Medical and Pension Funds	10 780	10 867
Leave Payout	-	65 053
	<b>958 129</b>	<b>962 509</b>
<b>Remuneration of other directors</b>		
Annual Remuneration	793 921	497 070
Car Allowance	264 468	167 667
Contributions to UIF, Medical and Pension Funds	169 487	155 263
	<b>1 227 876</b>	<b>820 000</b>
<b>26. Remuneration of councillors</b>		
Mayor	697 231	659 151
Councillors	678 891	682 447
Chief Whip	529 040	500 480
Chairperson Sec 79 Committee	1 417 410	1 368 411
Overpayment transferred to receivables	-	(35 286)
	<b>3 322 572</b>	<b>3 175 203</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>26. Remuneration of councillors (continued)</b>		
<b>In-kind benefits</b>		
The Mayor and Chief Whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor is entitled to make use of a Council owned vehicles for official duties.		
The Mayor has a full time driver.		
<b>27. Debt impairment</b>		
Debt impairment	14 938 558	67 732
<b>28. Investment revenue</b>		
<b>Interest revenue</b>		
Investments Accounts	129 339	97 217
<b>29. Fair value adjustments</b>		
Investment property (Fair value model)	798 904	4 281 230
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	15 145 375	25 959 073
<b>31. Finance costs</b>		
Trade and other payables	5 691 329	2 837 931
<b>32. Rental of facilities and equipment</b>		
<b>Premises</b>		
Banquet Hall	8 496	19 379
Buildings	243 188	184 950
Hostels	48 220	31 974
	<b>299 904</b>	<b>236 303</b>
<b>Facilities and equipment</b>		
Land	19 500	22 729
Service Lanes	-	1 506
	<b>19 500</b>	<b>24 235</b>
	<b>319 404</b>	<b>260 538</b>
<b>33. Contracted services</b>		
Information Technology Services	1 104 495	529 523
Operating Leases	511 276	720 101
Specialist Services	6 367 236	4 902 256
Other Contractors	314 804	170 030
	<b>8 297 811</b>	<b>6 321 910</b>

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>34. Bulk purchases</b>		
Electricity	36 081 028	35 095 115
<b>35. Cash generated from operations</b>		
Deficit	(10 410 368)	(14 858 705)
<b>Adjustments for:</b>		
Depreciation and amortisation	15 145 375	25 959 073
Gain (loss) on sale of assets and liabilities	2 266 295	(1 647 773)
Fair value adjustments	(798 904)	(4 281 230)
Debt impairment	14 938 558	67 732
Movements in retirement benefit assets and liabilities	704 572	2 092 813
Movements in provisions	2 227 349	(3 864 836)
Transfer to accumulated surplus	(2 286 502)	-
<b>Changes in working capital:</b>		
Inventories	135 895	(209 543)
Consumer debtors	(2 771 830)	(6 218 719)
Other receivables from non-exchange transactions	(9 419 217)	(12 906 329)
Construction contracts and receivables	934 318	(934 318)
Payables from exchange transactions	27 081 775	30 678 659
VAT	(2 836 099)	(1 355 990)
Unspent conditional grants and receipts	3 330 927	(2 628 363)
Consumer deposits	42 187	131 961
	<b>38 284 331</b>	<b>10 024 432</b>



# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure	22 424 226	5 209 381
<b>Total capital commitments</b>		
Already contracted for but not provided for	22 424 226	5 209 381
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Insurance Services	2 714 148	6 442 390
• Short term insurance	840 650	-
• Contracted Services	7 259 495	-
• PMU Services	1 184 210	-
	<b>11 998 503</b>	<b>6 442 390</b>
<b>Total operational commitments</b>		
Already contracted for but not provided for	11 998 503	6 442 390
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	22 424 226	5 209 381
Authorised operational expenditure	11 998 503	6 442 390
	<b>34 422 729</b>	<b>11 651 771</b>

As at 30 June 2015, the following commitments existed (amounts excl VAT):

Triotic Protection Services- for a 3 year security services contract.  
 Lateral Unison insurance brokers- for the provision of short term insurance.  
 KTS general traders-sewer outfall, reticulation and yard connection.  
 Lutavha trading JV Tshumisano trading- Vehicle lease.  
 Omphile electrical- Installation of highmast lights.  
 Akhile Management and Consulting (Pty) Ltd- Assistance with financia year end procedures.  
 SML Projects -PMU services.

### 37. Related parties

The compensation of key management personnel is disclosed in note 25 to the annual financial statements.

### 38. Prior period errors

In the prior year, the municiplaity incorrectly recognised the provision for landfill site for an area that is not currently being used as a landfill site. Thus resulting in an overstatement of the provision for landfill site amounting to R7 110 171 and an overstatement of the property, plant and equipment amounting to R4 804 312. This error has been corrected retrospectively.)

The correction of the error(s) results in adjustments as follows:

<b>Statement of financial position</b>		
Property, plant and equipment	(4 804 312)	(4 804 312)
Provisions	7 110 171	7 110 171
Accumulated depreciation	(1 001 955)	-
Heritage Assets	(60 821)	-
Opening Accumulated Surplus or Deficit	(1 755 093)	(1 929 699)

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
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### 38. Prior period errors (continued)

#### Statement of Financial Performance

Depreciation expense	370 562	-
Contracted services	-	(376 160)
Service charges	(320 491)	-
Assessment rates	251 627	-
Salaries	149 491	-

### 39. Comparative figures

The following comparative figures have been reclassified:

Collection cost and Repairs and Maintenance have been reclassified out of general expenditure  
Provision for 13th cheque has been reclassified to trade and other payables as accrued 13th cheque.

The effects of the reclassification are as follows:

#### Statement of Financial Performance

Collection Costs	2 301 044	341 437
Repairs and Maintenance	11 175 446	4 817 678

### 40. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

### 41. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R 175 405 505 and that the municipality's total liabilities exceed its assets by R 175 405 505.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The Mookgophong Local Municipality will in the coming financial period merge with the current Modimolle Local Municipality to form one municipality. In the next financial year the municipality will also be implementing Municipal Standard Chart of Accounts.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>42. Unauthorised expenditure</b>		
Opening balance	17 935 839	14 055 281
Approved or condoned by council	(15 316 037)	(8 235 479)
Transfer to receivable for recovery or repaid to creditor	(2 619 802)	(3 200 000)
Unauthorised expenditure incurred during the year	23 732 071	15 316 037
	<b>23 732 071</b>	<b>17 935 839</b>
<b>43. Fruitless and wasteful expenditure</b>		
Opening balance	2 068 473	548 050
Add: Fruitless and wasteful expenditure-Current year	4 776 782	2 068 473
Less: Amounts condoned or written off by council	(2 068 473)	(548 050)
	<b>4 776 782</b>	<b>2 068 473</b>
<b>44. Irregular expenditure</b>		
Opening balance	-	24 675 316
<b>45. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Opening balance	650 693	1 355 661
Current year subscription / fee	1 854 818	1 813 132
Amount paid - current year	(2 256 675)	(2 518 100)
	<b>248 836</b>	<b>650 693</b>
<b>PAYE,SDL and UIF</b>		
Current year subscription / fee	6 002 978	5 631 602
Amount paid - current year	(6 002 978)	(5 631 602)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	12 856 074	10 329 610
Amount paid - current year	(12 856 074)	(10 329 610)
	-	-
<b>VAT</b>		
VAT receivable	941 364	-
VAT payable	-	1 894 735
	<b>941 364</b>	<b>1 894 735</b>

VAT output payables and VAT input receivables are shown in note 18.

All VAT returns have been submitted by the due date throughout the year.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
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### 45. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
M.R Kekana	9 340	37 812	47 152
30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
M.R Kekana	4 246	39 639	43 885
K.S Lamola	5 579	7 359	12 938
	<b>9 825</b>	<b>46 998</b>	<b>56 823</b>

### 46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the financial statements.

Deviations in terms of S36(2) in terms of supply chain regulations to an amount of R 6 191 504 ( 2014: R 4 943 121) have been reported to and approved by Council.

# Mookgophong Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>47. Contingencies</b>		
<b>Contingent liabilities</b>		
<b>The following contingent liabilities existed at year-end:</b>		
<b>VD transcribers consultants vs Mookgophong Local Municipality</b>		
Claims against the municipality for services rendered. The municipality is contesting the authenticity of the claim.	-	53 500
<b>MV Chauke vs SVJ Maphondo and others</b>		
Assault against employee. The municipality bears the legal cost on behalf of the victimised employee	-	120 000
<b>NP Magwala vs S Kekana and others</b>		
Assault against employee. The municipality bears the legal cost on behalf of the victimised employee	-	120 000
<b>Malukela vs Mookgophong Local Municipality</b>		
Unfair dismissal claim against the municipality. The outcome of the case is awaited.	200 000	150 000
<b>SAMWU vs Mookgophong Local Municipality</b>		
Unfair labour practice in respect of appointments.	-	90 000
<b>George Gerbet Jackson vs Mookgophong Local Municipality</b>		
Claim against the municipality for injuries on municipal premises.	150 000	180 000
<b>Chauke Shirelo David vs Mookgophong Local Municipality</b>		
Municipal official involved in an accident. Claimant instituted against the municipality.	-	60 000
<b>XW Ngobeni vs Mookgophong Local Municipality</b>		
Former employee is claiming alleged short payment on salary while in employment.	140 086	140 086
<b>Vosloo vs Mookgophong Local Municipality</b>		
Spoilation order against the municipality.	150 000	-
<b>NC Mahlaela vs Mookgophong Local Municipality</b>		
Disciplinary process against employee.	200 000	-
<b>Mashishi and other vs Mookgophong Local Municipality</b>		
Restraint order	300 000	-
	<b>1 140 086</b>	<b>913 586</b>
<b>48. Contingent Assets</b>		
<b>The following contingent assets existed at year-end:</b>		
<b>JF de Beer vs Mookgophong local municipality</b>		
Court ruled in favour of the municipality. The cost to be paid by the applicant after taxation took place.	556 000	556 000
<b>MI Osman vs Mookgophong Local Municipality</b>		
Court ruled in favour of the municipality. The cost to be paid by the applicant after taxation took place.	200 000	-
<b>SAMWU vs Mookgophong Local Municipality</b>		
Action against union for vandalism. Ruling in favour of council	297 235	-
<b>SAMWU vs Mookgophong Local Municipality</b>		
Case regarding unfair labour practice	193 480	-
<b>Unlawful land occupiers vs Mookgophong Local Municipality</b>		
Application to vacate land exceeded with cost	412 956	-
<b>MB Molefe vs Mookgophong Local Municipality</b>		
	400 000	-
	<b>2 059 671</b>	<b>556 000</b>
<b>49. Distribution losses</b>		
<b>Heading</b>		
Electricity	7 124 992	8 161 490
Water	954 196	2 327 480
	<b>8 079 188</b>	<b>10 488 970</b>

## Appendix A

June 2015

### Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation						Accumulated depreciation							
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Write-off Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings	39 947 133	-	-	493 601	(335 783)	(1 467 509)	38 637 442	-	-	-	(2 028 067)	230 068	(1 797 999)	36 839 443
Infrastructure	133 599 940	9 167 359	(287 461)	6 517 168	162 675	70 700	149 230 381	-	-	-	(8 826 113)	-	(8 826 113)	140 404 268
Community Assets	4 777 795	-	-	3 040 468	-	(1 511 214)	6 307 049	-	-	-	(221 530)	-	(221 530)	6 085 519

## Appendix A

June 2015

### Analysis of property, plant and equipment as at 30 June 2015

	Cost/Revaluation						Accumulated depreciation							
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Write-off Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets	-	-	-	-	-	180 521	180 521	-	-	-	-	-	-	180 521
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	21 784 416	28 342 758	-	-	-	80 426	50 207 600	-	-	-	(4 019 115)	-	(4 019 115)	46 188 485

## Appendix A

June 2015

### Analysis of property, plant and equipment as at 30 June 2015

#### Cost/Revaluation

#### Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Write-off Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	39 947 133	-	-	493 601	(335 783)	(1 467 509)	38 637 442	-	-	-	(2 028 067)	230 068	(1 797 999)	36 839 443
Infrastructure	133 599 940	9 167 359	(287 461)	6 517 168	162 675	70 700	149 230 381	-	-	-	(8 826 113)	-	(8 826 113)	140 404 268
Community Assets	4 777 795	-	-	3 040 468	-	(1 511 214)	6 307 049	-	-	-	(221 530)	-	(221 530)	6 085 519
Heritage assets	-	-	-	-	-	180 521	180 521	-	-	-	-	-	-	180 521
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	21 784 416	28 342 758	-	-	-	80 426	50 207 600	-	-	-	(4 019 115)	-	(4 019 115)	46 188 485
	<b>200 109 284</b>	<b>37 510 117</b>	<b>(287 461)</b>	<b>10 051 237</b>	<b>(173 108)</b>	<b>(2 647 076)</b>	<b>244 562 993</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15 094 825)</b>	<b>230 068</b>	<b>(14 864 757)</b>	<b>229 698 236</b>
<b>Agricultural/Biological assets</b>														
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Intangible assets</b>														
	<b>100 958</b>	-	-	-	-	-	<b>100 958</b>	-	-	-	<b>(50 469)</b>	-	<b>(50 469)</b>	<b>50 489</b>
<b>Investment properties</b>														
Investment property	17 012 753	-	(1 474 906)	-	-	798 904	16 336 751	-	-	-	-	-	-	16 336 751
	<b>17 012 753</b>	-	<b>(1 474 906)</b>	-	-	<b>798 904</b>	<b>16 336 751</b>	-	-	-	-	-	-	<b>16 336 751</b>
<b>Total</b>														
Land and buildings	39 947 133	-	-	493 601	(335 783)	(1 467 509)	38 637 442	-	-	-	(2 028 067)	230 068	(1 797 999)	36 839 443
Infrastructure	133 599 940	9 167 359	(287 461)	6 517 168	162 675	70 700	149 230 381	-	-	-	(8 826 113)	-	(8 826 113)	140 404 268
Community Assets	4 777 795	-	-	3 040 468	-	(1 511 214)	6 307 049	-	-	-	(221 530)	-	(221 530)	6 085 519
Heritage assets	-	-	-	-	-	180 521	180 521	-	-	-	-	-	-	180 521
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	21 784 416	28 342 758	-	-	-	80 426	50 207 600	-	-	-	(4 019 115)	-	(4 019 115)	46 188 485
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	100 958	-	-	-	-	-	100 958	-	-	-	(50 469)	-	(50 469)	50 489
Investment properties	17 012 753	-	(1 474 906)	-	-	798 904	16 336 751	-	-	-	-	-	-	16 336 751
	<b>217 222 995</b>	<b>37 510 117</b>	<b>(1 762 367)</b>	<b>10 051 237</b>	<b>(173 108)</b>	<b>(1 848 172)</b>	<b>261 000 702</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15 145 294)</b>	<b>230 068</b>	<b>(14 915 226)</b>	<b>246 085 476</b>



## Appendix B

### Analysis of property, plant and equipment as at 30 June 2014

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings	52 895 654	464 669	-	-	-	-	53 360 323	-	-	-	-	-	-	53 360 323
Infrastructure	132 854 654	647 525	(13 440)	-	-	-	133 488 739	-	-	-	-	-	-	133 488 739
Community Assets	5 478 964	-	-	-	-	(500)	5 478 464	-	-	98	(700 767)	-	(700 669)	4 777 795

## Appendix A

June 2015

### Analysis of property, plant and equipment as at 30 June 2014

Cost/Revaluation							Accumulated depreciation						
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	26 191 375	11 467 735	(337 253)	(13 607 485)	-	60 700	23 775 072	-	-	-	(1 857 566)	(133 090)	(1 990 656)
													21 784 416

## Appendix A

June 2015

### Analysis of property, plant and equipment as at 30 June 2014

	Cost/Revaluation						Accumulated depreciation							
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Total property plant and equipment	217 420 647	12 579 929	(350 693)	(13 607 485)	-	60 200	216 102 598	-	-	98	(2 558 333)	(133 090)	(2 691 325)	213 411 273
Agricultural/Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets	100 958	-	-	-	-	-	100 958	-	-	-	-	-	-	100 958
Investment properties	15 501 540	-	-	1 511 213	-	-	17 012 753	-	-	-	-	-	-	17 012 753
Total	233 023 145	12 579 929	(350 693)	(12 096 272)	-	60 200	233 216 309	-	-	98	(2 558 333)	(133 090)	(2 691 325)	230 524 984

**Appendix B**  
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**  
June 2015

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
Municipal Infrastructure Grant	National Treasury	5 000 000	4 127 343	9 766 000	-	1 492 943	4 119 430	5 789 357	4 160 687		Yes	
Municipal Systems Improvement Grant	National Treasury	934 000	-	-	-	-	260 000	271 593	402 407		Yes	
Financial Management Grant	National Treasury	1 800 000	-	-	-	233 518	161 864	579 937	824 681		Yes	
Expandable Public Works Programme	National Treasury	454 000	340 000	340 000	-	119 107	380 296	409 218	225 379		Yes	
		-	-	-	-	-	-	-	-		Yes	
		8 188 000	4 467 343	9 106 000	-	1 845 568	4 921 590	7 050 105	5 613 154			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.